

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|----------------------------------|--|------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name Northeast Michigan Council of Governments | County Otsego |
| Fiscal Year End September 30, 2006 | Opinion Date November 3, 2006 | Date Audit Report Submitted to State January 24, 2007 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|---|-------------------------------------|--|-------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC | | Telephone Number 906-495-5952 | |
| Street Address 16978 S. Riley Avenue | | City Kincheloe | State MI |
| Zip 49788 | | | |
| Authorizing CPA Signature <i>Kenneth A. Talsma</i> | Printed Name Kenneth A. Talsma | License Number 1101024989 | |

Northeast Michigan Council of Governments

Basic Financial Statements

September 30, 2006

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

Independent Auditor's Report

Board of Directors
Northeast Michigan Council
of Governments
Gaylord, Michigan

We have audited the accompanying financial statements of the governmental activities and major fund of the Northeast Michigan Council of Governments, as of and for the year ended September 30, 2006, which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Council's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Northeast Michigan Council of Governments, as of September 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2006, on our consideration of the Northeast Michigan Council of Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Northeast Michigan Council
of Governments

The Management's Discussion and Analysis as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northeast Michigan Council of Government's basic financial statements. The program activity combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The above mentioned supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

November 3, 2006

Management's Discussion and Analysis

Overview of the Basic Financial Statements

Northeast Michigan Council of Government's basic financial statements include government-wide statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements report information on the Council's governmental activities. The government-wide statements are designed to provide readers with a broad overview of the Council's finances, in a manner similar to a private-sector business.

The Statement of Net Assets displays all of the Council's assets and liabilities, with the difference reported as net assets. All long-term assets and debt obligations are presented, as applicable.

The Statement of Activities focuses on the current year's revenues and expenses using accounting methods similar to those used by private sector businesses. This statement measures the Council's change in net assets for the year.

Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide financial statements.

Other Supplementary Information

A combining statement of program activity is provided in the Other Supplementary Information. This information is not required as a part of the basic financial statements.

Government-wide Financial Analysis

The Council's combined assets increased 1% from a year ago increasing from \$215,390 to \$216,854.

In a condensed format, the table below shows the net assets of the Northeast Michigan Council of Governments.

| | <u>Governmental Activities 2005</u> | <u>Governmental Activities 2006</u> |
|----------------------------|---|---|
| Assets: | | |
| Current Assets | \$ 210,070 | \$ 212,864 |
| Noncurrent Assets | <u>5,320</u> | <u>3,990</u> |
| Total Assets | <u>\$ 215,390</u> | <u>\$ 216,854</u> |
| Liabilities: | | |
| Current Liabilities | \$ 160,701 | \$ 188,817 |
| Noncurrent Liabilities | <u>26,471</u> | <u>16,330</u> |
| Total Liabilities | <u>187,172</u> | <u>205,147</u> |
| Net Assets: | | |
| Invested in Capital Assets | 5,320 | 3,990 |
| Unrestricted | <u>22,898</u> | <u>7,717</u> |
| Total Net Assets | <u>\$ 28,218</u> | <u>\$ 11,707</u> |

Capital assets are used in supporting the Council's planning services. The remaining portion of net assets, unrestricted net assets, may be used at the Council's discretion to meet ongoing obligations.

The results for the Council as a whole are reported in the Statement of Activities, which is summarized below.

| | <u>Governmental Activities 2005</u> | <u>Governmental Activities 2006</u> |
|--------------------------------|---|---|
| Revenues and Other Support | \$ 1,106,261 | \$ 1,102,020 |
| Expenses | <u>1,084,874</u> | <u>1,118,531</u> |
| Changes in net Assets | 21,387 | (16,511) |
| Net Assets – Beginning of Year | <u>6,831</u> | <u>28,218</u> |
| Net Assets – End of Year | <u>\$ 28,218</u> | <u>\$ 11,707</u> |

The current year operating loss was \$16,511. Program revenues are directly related to program expenses. The council relies on member appropriations each year from local units of government to help offset costs. The Council experienced a decrease in net assets this year primarily due to a combination of losses sustained on four programs closing during the year and staffing changes impacting General Program Operations.

Fund Financial Statements

Governmental Funds – All of the Council's basic services are included in the governmental fund, which focuses on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year end available for spending. Consequently, the governmental fund statements provide a detailed short-term view that *illustrates* whether more or fewer financial resources can be spent in the near future to finance the Council's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.

Capital Assets

At September 30, 2006 the Council has \$3,990 invested in capital assets. The following table summarizes the capital asset activity for the year:

| | Beginning Balance | Additions | Disposals | Ending Balance |
|-------------------------------|----------------------|-------------------|-------------|-------------------|
| Assets being depreciated | \$ 51,844 | \$ - | \$ (39,201) | \$ 12,643 |
| Less accumulated depreciation | (46,524) | (1,330) | 39,201 | (8,653) |
| Net capital assets | <u>\$ 5,320</u> | <u>\$ (1,330)</u> | <u>\$ -</u> | <u>\$ 3,990</u> |

Debt Outstanding

At the end of the year, the Council had \$71,820 in debt outstanding. Below is the debt activity for the year:

| | Beginning Balance | Additions | Reductions | Ending Balance |
|----------------|----------------------|------------------|------------------|-------------------|
| Notes payable | \$ 34,514 | \$ - | \$ 8,745 | \$ 25,769 |
| Line of credit | <u>30,009</u> | <u>52,556</u> | <u>36,514</u> | <u>46,051</u> |
| Total debt | <u>\$ 64,523</u> | <u>\$ 52,556</u> | <u>\$ 45,259</u> | <u>\$ 71,820</u> |

Economic Factors

Northeast Michigan Council of Governments is a regional planning "commission" servicing various counties and local units of government in Northeast Michigan. The Council's funding is obtained from state, federal and other grants and contracts as well as member appropriations. Consequently, the Council is affected by economic fluctuations affecting Northeast Michigan as well as state and federal budgetary constraints.

Financial Contact

The Council's financial statements are designed to present users with a general overview of the Council's finances. Questions concerning any of the information provided in this report or requests for additional information should be directed towards the Executive Director of Northeast Michigan Council of Governments at PO Box 457, Gaylord, Michigan 49734.

Basic Financial Statements

Northeast Michigan Council of Governments

Statement of Net Assets September 30, 2006

| | Governmental Activities |
|--|----------------------------|
| ASSETS: | |
| Current Assets | |
| Cash and Equivalents | \$ 20,575 |
| Due from Grantors | 190,104 |
| Prepaid Expenses | 2,185 |
| Total Current Assets | 212,864 |
| Capital Assets | |
| Property and Equipment, (Net of Accumulated Depreciation) | 3,990 |
| Total Assets | \$ 216,854 |
| LIABILITIES: | |
| Current Liabilities | |
| Accounts Payable | \$ 114,461 |
| Accrued Liabilities | 6,081 |
| Deferred Revenue | 12,785 |
| Line of Credit | 46,051 |
| Note Payable - Current Portion | 9,439 |
| Total Current Liabilities | 188,817 |
| Long-Term Liabilities | |
| Note Payable | 16,330 |
| Total Liabilities | 205,147 |
| NET ASSETS: | |
| Invested in Capital Assets | 3,990 |
| Unrestricted | 7,717 |
| Total Net Assets | \$ 11,707 |

Northeast Michigan Council of Governments

Statement of Activities For the Year Ended September 30, 2006

| | | Program Revenues | | Governmental Activities |
|-----------------------------------|---------------------|----------------------------|---------------------|--|
| | | Charges for Services | Operating Grants | Net (Expense) Revenue and Changes in Net Assets |
| | Expenses | | | |
| Functions/Programs | | | | |
| Governmental Activities: | | | | |
| Planning / Community Development: | | | | |
| Community Corrections | \$ 435,062 | \$ 5,085 | \$ 430,311 | \$ 334 |
| Economic Development | 118,858 | - | 114,448 | (4,410) |
| Transportation | 261,741 | - | 261,722 | (19) |
| Environmental and Waste Resources | 138,168 | - | 132,103 | (6,065) |
| Planning | 98,955 | - | 95,671 | (3,284) |
| Agency Operations | 65,747 | 298 | - | (65,449) |
| | | | | |
| Total Governmental Activities | <u>\$ 1,118,531</u> | <u>\$ 5,383</u> | <u>\$ 1,034,255</u> | \$ (78,893) |
| General Revenues | | | | |
| Membership Dues | | | | <u>62,382</u> |
| | | | | |
| | | | | Changes in Net Assets |
| | | | | (16,511) |
| | | | | |
| | | | | Net Assets Beginning |
| | | | | <u>28,218</u> |
| | | | | |
| | | | | Net Assets Ending |
| | | | | <u>\$ 11,707</u> |

Northeast Michigan Council of Governments

Balance Sheet Governmental Fund September 30, 2006

| | <u>General Fund</u> |
|-------------------------------------|--------------------------|
| Assets: | |
| Cash and Equivalents - Unrestricted | \$ 20,575 |
| Due from Grantors | 190,104 |
| Prepaid Expenses | <u>2,185</u> |
| Total Assets | <u><u>\$ 212,864</u></u> |
| Liabilities: | |
| Accounts Payable | \$ 114,461 |
| Accrued Liabilities | 6,081 |
| Deferred Revenue | 12,785 |
| Line of Credit | <u>46,051</u> |
| Total Liabilities | <u>179,378</u> |
| Fund Balance: | |
| Unreserved and Undesignated | <u>33,486</u> |
| Total Fund Balance | <u>33,486</u> |
| Total Liabilities and Fund Balances | <u><u>\$ 212,864</u></u> |

**Reconciliation of the Governmental Fund
Balance Sheet to the Statement of Net Assets
September 30, 2006**

| | | |
|---|----|-----------------|
| Total Fund Balances – governmental fund | \$ | 33,486 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 3,990 |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These consist of: | | |
| Note Payable | | <u>(25,769)</u> |
| Net Assets of Governmental Activities | \$ | <u>11,707</u> |

Northeast Michigan Council of Governments

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund For the Year Ended September 30, 2006

| | General Fund |
|---|-----------------|
| Revenues | |
| Federal | \$ 287,918 |
| State | 565,160 |
| Local | 179,460 |
| In-kind Contributions | 69,184 |
| Other Income | 298 |
| Total Revenues | 1,102,020 |
| Expenditures | |
| Planning/Community Development | 1,125,946 |
| Total Expenditures | 1,125,946 |
| Excess (Deficiency) of Revenues Over Expenditures | (23,926) |
| Fund Balance - October 1, 2005 | 57,412 |
| Fund Balance - September 30, 2006 | \$ 33,486 |

Northeast Michigan Council of Governments

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities For the Year Ended September 30, 2006

Net Change in Fund Balance – Total Governmental Funds \$ (23,926)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$0) exceeded depreciation (\$1,330) in the current period. (1,330)

Governmental funds report principal payments as expenditures. However, in the statement of net assets the repayment of principal reduces notes payable balance. 8,745

Changes in Net Assets of Governmental Activities \$ (16,511)

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments. In accordance with Statement No. 34, the Council is considered to be a Special Purpose Government due to being established to serve one particular purpose. To conform with the Statement, the Council has included a Management's Discussion and Analysis section.

The financial statements of the Northeast Michigan Council of Governments are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Council's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. Reporting Entity

The Northeast Michigan council of Governments (the Council) is a regional planning "commission", as defined by Public Act 281 of 1945 of the State of Michigan, servicing various counties and local units of governments in Northeast Michigan. Through the Council, the units coordinate their efforts to maintain and improve the physical, economic, and social well being of the area. The Council has been determined to be a local unit of government for financial purposes.

The Council's funding is obtained from state, federal and other grants and contracts as well as member appropriations. Consequently, the Council's is affected by economic fluctuations affecting Northeast Michigan as well as state and federal budgetary constraints.

The accompanying financial statements have been prepared in accordance with criteria established by Governmental Accounting Standards Board Statement (GASBS) No. 14 (and amended by GASBS No. 39). GASB 14 states the primary basis for determining whether outside agencies and organizations should be considered component units of the Council and included in the Council's financial statements is financial accountability. Financial accountability has been defined as follows: A primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The Council has no component units.

B – Basic Financial Statements

The basic financial statements (i.e., the statement of net assets and the statement of revenues, expenses, and changes in net assets) report information on all of the nonfiduciary activities of the Council. The effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Separate financial statements are provided for the governmental fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:**

The basic financial statements are reported using the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

All other revenue items are considered to be available only when cash is received by the Council.

D - Assets, Liabilities, and Net Assets or EquityBank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Deposits are recorded at cost.

Receivables

The Council provides many services to governmental and quasi-governmental agencies. The Council has contracts to provide payment for these services rendered, along with other performance related objectives achieved, up to a maximum contractual dollar amount.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, and equipment are depreciated using the straight-line method over the following useful lives:

Furniture and Equipment

5-15 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Resources from various contracts are recorded as revenue when the related costs are incurred. Donor restricted contributions and contractual advances are deferred and recognized over the periods to which the terms of the restricted contributions are substantially met and the contractual services are provided.

Expenditures

Expenditures identified as applying to a specific program or supporting service are recorded in the appropriate service area as incurred. Expenditures not directly attributable to a program or supporting service are allocated between service areas based on an indirect cost rate.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

Income Taxes

The Council is a governmental unit as defined by Public Act 281 of 1945 of the State of Michigan and is therefore exempt from federal income taxation.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets – The Council is not required to adopt an operating budget by law; therefore, no budgetary comparison has been included in the financial statements.

NOTE 3 - CASH AND EQUIVALENTS

At year end, the Council's deposits and investments were reported in the basic financial statements in the following categories:

| | <u>Governmental Activities</u> |
|----------------------------|------------------------------------|
| Cash and Cash Equivalents: | |
| - Unrestricted | \$ <u>20,575</u> |
| Total | \$ <u><u>20,575</u></u> |

The breakdowns for deposits are as follows:

| | |
|---|-------------------------|
| Bank deposits (checking and savings accounts) | \$ <u>20,575</u> |
| Total | \$ <u><u>20,575</u></u> |

NOTE 3 - CASH AND EQUIVALENTS (Continued)

Investment and Deposit Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Council's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The Council's investment policy does not have specific limits in excess of state law on investment credit risk. The Council has no investments for which ratings are required.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Council's deposits may not be returned. State law does not require and the Council does not have a policy for deposit custodial credit risk. As of year end, none of the Council's bank balance of \$49,913 was exposed to credit risk.

Statutory Authority:

Michigan law (Public Act 196 PA 1997) authorizes the Council to deposit and invest in one or more of the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.

NOTE 3 - CASH AND EQUIVALENTS (Continued)

- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

NOTE 4 - DUE FROM GRANTORS

The amount reported as "Due from Grantors" as of September 30, 2006, consists of amounts due from the following:

| | | |
|---|----|----------------|
| City of Alpena | \$ | 5,827 |
| Rogers City | | 1,016 |
| Southbranch | | 5,991 |
| State of Michigan Department of Environmental Quality | | 29,648 |
| U.S. Economic Development Administration | | 13,657 |
| U.S. Environmental Protection Agency | | 8,089 |
| State of Michigan Office of Community Corrections | | 42,026 |
| State of Michigan Department of Transportation | | 76,254 |
| Other | | <u>7,596</u> |
| Total Due from Grantors | \$ | <u>190,104</u> |

NOTE 5 - CAPITAL ASSETS

A summary of capital assets is as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------|------------------|---------------------------|
| <i>Capital assets being depreciated:</i> | | | | |
| Equipment | \$ 51,844 | \$ - | \$ (39,201) | \$ 12,643 |
| <i>Less accumulated depreciation:</i> | | | | |
| Equipment | <u>(46,524)</u> | <u>(1,330)</u> | <u>39,201</u> | <u>(8,653)</u> |
| Net Capital Assets | <u>\$ 5,320</u> | <u>\$ (1,330)</u> | <u>\$ -</u> | <u>\$ 3,990</u> |

NOTE 6 - LONG-TERM OBLIGATION

The following is a summary of the Council's long-term obligations as of September 30, 2006 and the transactions during the year then ended:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---------------|------------------------------|------------------|------------------|---------------------------|--------------------------------|
| Notes payable | \$ 34,514 | \$ - | \$ 8,745 | \$ 25,769 | \$ 9,439 |

Payments for this note are due in monthly installments of \$928. The note bears interest at a rate of 7.75%. The note is secured by all assets of the Council.

The annual requirements to amortize the debt obligation are as follows:

| <u>Year End September 30</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------|------------------|-----------------|
| 2007 | \$ 9,439 | \$ 1,697 |
| 2008 | 10,186 | 950 |
| 2009 | 6,144 | 189 |
| Total | <u>\$ 25,769</u> | <u>\$ 2,836</u> |

NOTE 7 - LINE OF CREDIT

The Council has available a revolving line of credit with a bank for \$50,000. The line of credit is renewed on an annual basis. Borrowings under the line of credit bear interest at the bank's prime rate plus 1%. All borrowings are collateralized by substantially all assets of the Council. Outstanding liability on the line of credit was \$46,051 at September 30, 2006. The following is a summary of transactions for the fiscal year September 30, 2006.

| <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|------------------------------|------------------|-------------------|---------------------------|
| \$ 30,009 | \$ 52,556 | \$ 36,514 | \$ 46,051 |

NOTE 8 - LEASES

Northeast Michigan Council of Governments leases an office building in Gaylord, Michigan under an operating lease that expires June 30, 2007. Amounts charged to expense under the operating lease totaled \$18,300 for the year ended September 30, 2006.

In July 2005, the Council began leasing office space in Alpena, Michigan on a month-to-month basis for \$350 per month. Amounts charged to expense under this arrangement totaled \$4,200 for the year ended September 30, 2006.

NOTE 9 - DEFERRED REVENUE

The amount reported as "Deferred Revenue" as of September 30, 2006, consists of amounts deferred from the following funding sources:

| | |
|--|------------------|
| U.S. E.P.A. Great Lakes Grant #20060561 | \$ 678 |
| U.S. Department of Commerce (EDA) #06-83-05001 | 7,950 |
| Michigan Natural Landscapes conferences #2004-0005-218 | 1,682 |
| Member appropriations | <u>2,475</u> |
| | <u>\$ 12,785</u> |

NOTE 10 - INDIRECT COSTS

Indirect costs which support all projects are allocated based on the ratio of the individual project's salaries and fringe benefits to total projects salaries and fringe benefits. The following are the total indirect costs allocated to projects, including agency administration:

| | |
|-----------------------------------|------------------|
| Supplies and printing | \$ 10,429 |
| Postage | 2,033 |
| Legal and accounting | 8,075 |
| Staff travel | 6,668 |
| Telephone | 5,492 |
| Rent | 16,920 |
| Equipment usage and maintenance | 4,205 |
| Dues, subscription, and education | 5,473 |
| Service charges | 8 |
| Computers/software and support | 17,621 |
| Insurance | 1,235 |
| Other | <u>269</u> |
| Total Indirect Costs | <u>\$ 78,428</u> |

NOTE 11 - DEFERRED COMPENSATION PLAN

The Council offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all Council employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

NOTE 12 - DEFINED CONTRIBUTION PLAN

The Council provides pension benefits for full-time employees, as designated by Council, through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Council's contributions for each employee (and interest allocated to each employee's account) are fully vested immediately.

The Council's total payroll in fiscal year 2006 was \$264,346. As permitted, Council elected not to contribute to the plan for fiscal year 2006 due to financial constraints. \$12,682 was contributed by employees.

NOTE 13 - CONTINGENCIES

Certain funded contractual programs are subject to audit by the grantors. Upon audit, some expenditures may be disallowed and as a result, those amounts may be refundable. Such refunds if any are generally payable from the Council's unrestricted net assets. The Council feels that any potential disallowances are immaterial.

NOTE 14 - RISK MANAGEMENT

The council is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Council carries commercial insurance for risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded coverage in any of the past three years.

Other Supplementary Information

Northeast Michigan Council of Governments

Statement of Revenues, Expenses, and Changes in Net Assets For the Year Ended September 30, 2006

Revenues

| | |
|-----------------------|------------|
| Federal | \$ 287,918 |
| State | 565,160 |
| Local | 179,460 |
| In-kind Contributions | 69,184 |
| Other Income | 298 |

| | |
|----------------|------------------|
| Total Revenues | <u>1,102,020</u> |
|----------------|------------------|

Expenses

| | |
|-------------------------------|---------------|
| Salaries | 264,347 |
| Fringes | 84,916 |
| Consultant Fees | 548,172 |
| Education | 308 |
| Advertising | 856 |
| Supplies | 1,658 |
| Postage | 1,459 |
| Telephone | 3,235 |
| Travel | 18,719 |
| Printing | 14,066 |
| Equipment Usage & Maintenance | 5,000 |
| Direct Equipment and Software | 1,616 |
| Dues and Subscription | 8,226 |
| Meetings | 3,749 |
| Consultant Travel | 6,616 |
| Depreciation | 1,330 |
| Other: | |
| Other | 6,646 |
| Other In-kind | 69,184 |
| Indirect Costs | <u>78,428</u> |

| | |
|----------------|------------------|
| Total Expenses | <u>1,118,531</u> |
|----------------|------------------|

| | |
|-----------------------|----------|
| Changes in Net Assets | (16,511) |
|-----------------------|----------|

| | |
|-----------------------|--------|
| Net Assets, Beginning | 28,218 |
|-----------------------|--------|

| | |
|--------------------|-------------------------|
| Net Assets, Ending | <u><u>\$ 11,707</u></u> |
|--------------------|-------------------------|

Northeast Michigan Council of Governments

Program Activity Activity Combining Statement For the Year Ended September 30, 2006

| | Community Corrections | Economic Development | Transportation | Environmental and Water Resources | Planning | Program Subtotal | Agency Operations | Eliminating Entry | Total Activity |
|-------------------------------------|--------------------------|-------------------------|----------------|---|-------------------|---------------------|----------------------|----------------------|--------------------|
| Revenues | | | | | | | | | |
| Federal | \$ - | \$ 81,590 | \$ 141,754 | \$ 64,574 | \$ - | \$ 287,918 | \$ - | \$ - | \$ 287,918 |
| State | 430,311 | - | 109,968 | 24,881 | - | 565,160 | - | - | 565,160 |
| Local | 5,085 | - | 10,000 | 6,322 | 95,671 | 117,078 | 62,382 | - | 179,460 |
| Contributions: | | | | | | | | | |
| In Kind | - | 55,536 | - | 49,241 | - | 104,777 | - | (35,593) | 69,184 |
| Other Income | - | - | - | - | - | - | 298 | - | 298 |
| Total Revenues | 435,396 | 137,126 | 261,722 | 145,018 | 95,671 | 1,074,933 | 62,680 | (35,593) | 1,102,020 |
| Expenses | | | | | | | | | |
| Salaries | 28,009 | 32,835 | 81,251 | 39,127 | 49,906 | 231,128 | 33,219 | - | 264,347 |
| Fringes | 8,997 | 10,017 | 26,100 | 11,998 | 15,677 | 72,789 | 12,127 | - | 84,916 |
| Consultant Fees | 370,563 | 20,896 | 109,000 | 35,369 | 12,159 | 547,987 | 185 | - | 548,172 |
| Education | 308 | - | - | - | - | 308 | - | - | 308 |
| Advertising | - | - | 178 | - | - | 178 | 678 | - | 856 |
| Supplies | 458 | 105 | 446 | 105 | 430 | 1,544 | 114 | - | 1,658 |
| Postage | 8 | 388 | 254 | 14 | 673 | 1,337 | 122 | - | 1,459 |
| Telephone | 3,152 | - | - | - | 83 | 3,235 | - | - | 3,235 |
| Travel | 1,636 | 5,881 | 5,452 | 1,895 | 3,662 | 18,526 | 193 | - | 18,719 |
| Printing | - | 1,119 | 9,063 | 2,040 | 1,162 | 13,384 | 682 | - | 14,066 |
| Equipment Usage and Maintenance | 4,272 | - | 728 | - | - | 5,000 | - | - | 5,000 |
| Direct Equipment and Software | 1,616 | - | - | - | - | 1,616 | - | - | 1,616 |
| Dues and Subscriptions | - | 4,139 | 3,756 | 272 | 39 | 8,206 | 20 | - | 8,226 |
| Meetings | 650 | 328 | 1,382 | 16 | - | 2,376 | 1,373 | - | 3,749 |
| Consultant Travel | 6,502 | - | - | - | 114 | 6,616 | - | - | 6,616 |
| Other Direct Expense | 581 | - | 25 | - | - | 606 | 249 | - | 855 |
| Interest and Principal | - | - | - | - | - | - | 4,311 | - | 4,311 |
| Uncollected Grant/Contract Invoices | - | - | - | - | - | - | 1,480 | - | 1,480 |
| Depreciation | - | - | - | - | - | - | 1,330 | - | 1,330 |
| Indirect Costs | 8,310 | 10,292 | 24,106 | 11,006 | 15,050 | 68,764 | 9,664 | - | 78,428 |
| In Kind | - | 55,536 | - | 49,241 | - | 104,777 | - | (35,593) | 69,184 |
| Total Expenses | 435,062 | 141,536 | 261,741 | 151,083 | 98,955 | 1,088,377 | 65,747 | (35,593) | 1,118,531 |
| Program Income / (Loss) | \$ 334 | \$ (4,410) | \$ (19) | \$ (6,065) | \$ (3,284) | \$ (13,444) | \$ (3,067) | \$ - | \$ (16,511) |

Northeast Michigan Council of Governments

Program Activity Community Corrections Programs Combining Statement For the Year Ended September 30, 2006

| | Northern Michigan CCAB | Sunrise Side CCAB | Saturday Work Program | Community Corrections Programs Total |
|---------------------------------|------------------------------|----------------------|-----------------------------|--|
| Revenues | | | | |
| State | \$ 247,551 | \$ 182,760 | \$ - | \$ 430,311 |
| Local | - | - | 5,085 | 5,085 |
| Total Revenues | 247,551 | 182,760 | 5,085 | 435,396 |
| Expenses | | | | |
| Salaries | 15,535 | 12,474 | - | 28,009 |
| Fringes | 4,990 | 4,007 | - | 8,997 |
| Consultant Fees | 210,763 | 155,960 | 3,840 | 370,563 |
| Education | 179 | 129 | - | 308 |
| Supplies | 297 | 161 | - | 458 |
| Postage | - | 8 | - | 8 |
| Telephone | 2,535 | 617 | - | 3,152 |
| Travel | 867 | 769 | - | 1,636 |
| Equipment Usage and Maintenance | 2,563 | 1,709 | - | 4,272 |
| Direct Equipment and Software | 1,616 | - | - | 1,616 |
| Meetings | 382 | 268 | - | 650 |
| Consultant Travel | 3,398 | 3,104 | - | 6,502 |
| Other Direct Expenses | - | - | 581 | 581 |
| Indirect Costs | 4,609 | 3,701 | - | 8,310 |
| Total Expenses | 247,734 | 182,907 | 4,421 | 435,062 |
| Program Income / (Loss) | \$ (183) | \$ (147) | \$ 664 | \$ 334 |

Northeast Michigan Council of Governments

Program Activity Economic Development Programs Combining Statement For the Year Ended September 30, 2006

| | District Continuation Planning Grant | District Continuation Planning Grant | USDA RBEG Beef Cattle "Maintaining and Developing Markets for Cattle in NE Lower Michigan" | NE Michigan Targeted Sustainable Development | Economic Development Programs Total |
|-------------------------|--|--|---|---|---|
| Revenues | | | | | |
| Federal | \$ 10,589 | \$ 33,021 | \$ 7,546 | \$ 30,434 | \$ 81,590 |
| Contributions: | | | | | |
| In Kind | - | 22,678 | 5,585 | 27,273 | 55,536 |
| Total Revenues | 10,589 | 55,699 | 13,131 | 57,707 | 137,126 |
| Expenses | | | | | |
| Salaries | 6,062 | 15,493 | 2,984 | 8,296 | 32,835 |
| Fringes | 1,728 | 4,977 | 757 | 2,555 | 10,017 |
| Consultant Fees | - | - | 4,816 | 16,080 | 20,896 |
| Supplies | 33 | 72 | - | - | 105 |
| Postage | 199 | - | - | 189 | 388 |
| Travel | 992 | 4,300 | - | 589 | 5,881 |
| Printing | 984 | - | - | 135 | 1,119 |
| Dues and Subscriptions | 569 | 3,570 | - | - | 4,139 |
| Meetings | 301 | 12 | - | 15 | 328 |
| Indirect Costs | 2,098 | 4,597 | 1,023 | 2,574 | 10,292 |
| In Kind | - | 22,678 | 5,584 | 27,274 | 55,536 |
| Total Expenses | 12,966 | 55,699 | 15,164 | 57,707 | 141,536 |
| Program Income / (Loss) | \$ (2,377) | \$ - | \$ (2,033) | \$ - | \$ (4,410) |

Northeast Michigan Council of Governments

Program Activity Transportation Programs Combining Statement For the Year Ended September 30, 2006

| | MDOT Transportation Planning | FY 06 Asset Management | Non Motorized Trail Mapping | Rural Safety Forum | Access Management Plan M-55 | US-23 Heritage Route | Marketing Plan US 23 Sunrise Side Coastal Highway | Transportation Programs Total |
|---------------------------------|------------------------------------|---------------------------|--------------------------------|-----------------------|-----------------------------------|-------------------------|--|----------------------------------|
| Revenues | | | | | | | | |
| Federal | \$ - | \$ - | \$ 12,462 | \$ 1,500 | \$ 65,992 | \$ 42,600 | \$ 19,200 | \$ 141,754 |
| State | 40,000 | 34,904 | 3,115 | - | 16,499 | 10,650 | 4,800 | 109,968 |
| Local | - | - | - | - | 10,000 | - | - | 10,000 |
| Total Revenues | 40,000 | 34,904 | 15,577 | 1,500 | 92,491 | 53,250 | 24,000 | 261,722 |
| Expenses | | | | | | | | |
| Salaries | 23,170 | 18,055 | 3,879 | - | 12,494 | 23,653 | - | 81,251 |
| Fringes | 7,443 | 5,800 | 1,246 | - | 4,013 | 7,598 | - | 26,100 |
| Consultant Fees | 60 | - | - | - | 71,276 | 13,664 | 24,000 | 109,000 |
| Advertising | - | - | - | - | 178 | - | - | 178 |
| Supplies | 425 | - | 21 | - | - | - | - | 446 |
| Postage | 194 | - | 19 | 25 | - | 16 | - | 254 |
| Travel | 1,150 | 2,139 | 139 | - | 754 | 1,270 | - | 5,452 |
| Printing | - | - | 8,803 | 223 | - | 37 | - | 9,063 |
| Equipment Usage and Maintenance | 328 | - | 400 | - | - | - | - | 728 |
| Dues and Subscriptions | 315 | 3,441 | - | - | - | - | - | 3,756 |
| Meetings | 18 | 111 | - | 1,253 | - | - | - | 1,382 |
| Other Direct Expenses | 25 | - | - | - | - | - | - | 25 |
| Indirect Costs | 6,874 | 5,357 | 1,151 | - | 3,707 | 7,017 | - | 24,106 |
| Total Expenses | 40,002 | 34,903 | 15,658 | 1,501 | 92,422 | 53,255 | 24,000 | 261,741 |
| Program Income / (Loss) | \$ (2) | \$ 1 | \$ (81) | \$ (1) | \$ 69 | \$ (5) | \$ - | \$ (19) |

Northeast Michigan Council of Governments

Program Activity Environmental and Water Resources Programs Combining Statement For the Year Ended September 30, 2006

| | Thunder Bay Watershed Initiative | Cheboygan River/Lower Black River Transition/ Implementation | Grand Lake Coastal Watershed Project | Grand Lake Coastal Watershed Project Phase II | Presque Isle Green Infrastructure Plan | Other Environmental & Water Resource Programs | Environmental & Water Resources Program Total |
|-------------------------|--|--|---|---|---|--|--|
| Revenues | | | | | | | |
| Federal | \$ - | \$ 22,958 | \$ 16,435 | \$ 13,220 | \$ 11,553 | \$ 408 | \$ 64,574 |
| State | 24,881 | - | - | - | - | - | 24,881 |
| Local | - | - | - | - | - | 6,322 | 6,322 |
| Contributions: | | | | | | | |
| In Kind | 3,000 | 13,401 | 17,000 | 15,840 | - | - | 49,241 |
| Total Revenues | 27,881 | 36,359 | 33,435 | 29,060 | 11,553 | 6,730 | 145,018 |
| Expenses | | | | | | | |
| Salaries | 4,735 | 10,323 | 9,688 | 8,089 | 2,449 | 3,843 | 39,127 |
| Fringes | 1,521 | 2,745 | 3,112 | 2,598 | 787 | 1,235 | 11,998 |
| Consultant Fees | 17,062 | 11,114 | - | - | 7,193 | - | 35,369 |
| Supplies | 71 | - | 34 | - | - | - | 105 |
| Postage | - | - | - | - | - | 14 | 14 |
| Travel | 241 | 232 | 717 | 133 | 125 | 447 | 1,895 |
| Printing | - | 2,040 | - | - | - | - | 2,040 |
| Dues and Subscriptions | - | - | - | - | 272 | - | 272 |
| Meetings | - | - | 16 | - | - | - | 16 |
| Indirect Costs | 1,251 | 2,614 | 2,874 | 2,400 | 727 | 1,140 | 11,006 |
| In Kind | 3,000 | 13,401 | 17,000 | 15,840 | - | - | 49,241 |
| Total Expenses | 27,881 | 42,469 | 33,441 | 29,060 | 11,553 | 6,679 | 151,083 |
| Program Income / (Loss) | \$ - | \$ (6,110) | \$ (6) | \$ - | \$ - | \$ 51 | \$ (6,065) |

Northeast Michigan Council of Governments

Program Activity Planning Combining Statement For the Year Ended September 30, 2006

| | Curtis Township Master Plan | City of Alpena Comprehensive Plan | Bearinger Township Master Plan | Hazard Mitigation | Maple Forest Zoning Ordinance | Southbranch Township Zoning Ordinance | Montmorency 911 | Other Planning Programs | Planning Programs Total |
|-------------------------|-----------------------------------|---|--------------------------------------|----------------------|-------------------------------------|--|--------------------|----------------------------|-------------------------------|
| Revenues | | | | | | | | | |
| Local | \$ 7,652 | \$ 18,048 | \$ 8,710 | \$ 2,196 | \$ 6,988 | \$ 8,455 | \$ 11,541 | \$ 32,081 | \$ 95,671 |
| Total Revenues | 7,652 | 18,048 | 8,710 | 2,196 | 6,988 | 8,455 | 11,541 | 32,081 | 95,671 |
| Expenses | | | | | | | | | |
| Salaries | 4,489 | 10,650 | 5,053 | 2,694 | 3,364 | 347 | 5,051 | 18,258 | 49,906 |
| Fringes | 1,442 | 3,421 | 1,623 | 683 | 1,081 | 112 | 1,623 | 5,692 | 15,677 |
| Consultant Fees | - | - | - | 130 | 1,330 | 7,879 | 2,700 | 120 | 12,159 |
| Supplies | - | 32 | 43 | 38 | - | - | 23 | 294 | 430 |
| Postage | 20 | - | 68 | 150 | 84 | - | - | 351 | 673 |
| Telephone | - | - | - | - | - | - | - | 83 | 83 |
| Travel | 331 | 766 | 366 | 292 | 75 | 13 | 557 | 1,262 | 3,662 |
| Printing | 38 | - | 38 | 845 | 81 | - | - | 160 | 1,162 |
| Dues and Subscriptions | - | 19 | 20 | - | - | - | - | - | 39 |
| Consultant Travel | - | - | - | 49 | - | - | 65 | - | 114 |
| Indirect Costs | 1,332 | 3,160 | 1,499 | 924 | 998 | 103 | 1,499 | 5,535 | 15,050 |
| Total Expenses | 7,652 | 18,048 | 8,710 | 5,805 | 7,013 | 8,454 | 11,518 | 31,755 | 98,955 |
| Program Income / (Loss) | \$ - | \$ - | \$ - | \$ (3,609) | \$ (25) | \$ 1 | \$ 23 | \$ 326 | \$ (3,284) |

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Board of Directors
Northeast Michigan Council
of Governments
Gaylord, Michigan

We have audited the financial statements of the governmental activities and major fund of the Northeast Michigan Council of Governments as of and for the year ended September 30, 2006, which collectively comprise the Council's basic financial statements and have issued our report thereon dated November 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northeast Michigan Council of Government's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
Northeast Michigan Council
of Governments

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Michigan Council of Government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

November 3, 2006



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Board of Directors
Northeast Michigan Council
of Governments
Gaylord, Michigan

We have audited the financial statements of the Northeast Michigan Council of Governments for the year ended September 30, 2006, and have issued our reports thereon dated November 3, 2006. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of Northeast Michigan Council of Governments. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed test of Northeast Michigan Council of Government/s compliance with certain provisions of laws, regulations, contract, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Northeast Michigan Council of Governments or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Northeast Michigan Council of Government's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit. We encountered no difficulties in accumulating the necessary documentation to support our financial statements.

Comments and Recommendations

Payroll

It was noted during our testing of the payroll system, that the employees did not have a New Michigan Hire Form in their personnel file. It is recommended every new employee hired fill out a New Hire Form and it be kept in their personnel file.

Policies

Management of the Council is in the process of updating its policies; we recommend that the following policies be reviewed and updated as necessary: Authorized Investments, Conflict of Interest, Fixed Asset Capitalization, and Purchasing/Procurement.

Conclusion

This information is intended solely for the use of federal awarding agencies, pass-through entities, and management of the Northeast Michigan Council of Governments and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Northeast Michigan Council of Governments are described in Note 1. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Northeast Michigan Council of Governments during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Northeast Michigan Council of Government's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Northeast Michigan Council of Governments, either individually or in the aggregate, indicate matters that could have a significant effect on the Northeast Michigan Council of Government's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.